

EXHIBIT 68

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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DEXIA SA/NV, DEXIA HOLDINGS, INC.,
FSA ASSET MANAGEMENT LLC and
DEXIA CREDIT LOCAL SA,

ECF Case

Plaintiffs,
No. 12-cv-4761 (JSR)

VS.

BEAR STEARNS & CO. INC., THE
BEAR STEARNS COMPANIES, INC.,
BEAR STEARNS ASSET BACKED
SECURITIES I LLC, EMC MORTGAGE
LLC (f/k/a EMC MORTGAGE
CORPORATION), STRUCTURED ASSET
MORTGAGE INVESTMENTS II INC.,
J.P. MORGAN MORTGAGE ACQUISITION
CORPORATION, J.P. MORGAN
SECURITIES LLC (f/k/a JPMORGAN
SECURITIES INC.), WAMU ASSET
ACCEPTANCE CORP., WAMU CAPITAL
CORP., WAMU MORTGAGE SECURITIES
CORP., JPMORGAN CHASE & CO. and
JPMORGAN CHASE BANK, N.A.,

Defendants.

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VIDEOTAPED DEPOSITION OF

HONGFEI ZHANG

Tuesday, November 27, 2012

825 Eighth Avenue

New York, New York

Reported by:
AYLETTE GONZALEZ, CLR
JOB NO. 55817

1 HONGFEI ZHANG (11/27/12)

00:21:10 2 does that mean?

00:21:11 3 A. Well, typically your bonus gets
00:21:15 4 paid in February. So, at that time, they
00:21:17 5 really needed me to go there. So, they said,
00:21:20 6 okay, you come and we'll pay your bonus.

00:21:22 7 Q. How much was the buyout?

00:21:24 8 A. I don't remember; 200, 300 grand.

00:21:28 9 Q. And what was your position at FSA?

00:21:34 10 A. I was brought in as a mock [sic]

00:21:37 11 risk guy.

00:21:42 12 Q. A mock risk?

00:21:43 13 A. Mock risk.

00:21:44 14 Q. Explain to me what that is.

00:21:46 15 MR. VAN KWAEGEN: Before you go,
00:21:46 16 just make sure you're talking about
00:21:48 17 the same entity because FSA could mean
00:21:50 18 different things. I just don't want
00:21:52 19 to be unclear later on.

00:21:54 20 Q. What is mock risk?

00:22:00 21 MR. VAN KWAEGEN: He actually
00:22:01 22 didn't say "mock risk," he said,
00:22:02 23 "market risk."

00:22:03 24 Q. Okay. Did you say "market risk" or
00:22:04 25 "mock risk"?

1 HONGFEI ZHANG (11/27/12)

00:22:06 2 A. Market. In my view for this
00:22:14 3 portfolio, it's interest risk, liquidity risk,
00:22:24 4 currency risk, you know and the mark to market
00:22:33 5 of the portfolio.

00:22:35 6 Q. You said in your view.

00:22:37 7 A. There are different -- you know --
00:22:39 8 you know, if you ask precise definition,
00:22:44 9 right, that's a -- I wouldn't know the precise
00:22:48 10 definition what the market risk is. But
00:22:51 11 that's my understanding.

00:22:51 12 Q. Would people have a different
00:22:53 13 definition than the one you just gave?

00:22:55 14 MR. VAN KWAEGEN: Object to the
00:22:55 15 form.

00:22:58 16 A. I would say it's pretty much the
00:23:00 17 same because in the risk management world,
00:23:04 18 typically split into market risk, credit risk,
00:23:13 19 liquidity risk, operation risk. Those are, I
00:23:22 20 think, big four category of risk.

00:23:26 21 Q. And when you were brought into FSA
00:23:28 22 you were hired to analyze market risk?

00:23:30 23 A. That's correct.

00:23:31 24 Q. Were you brought in by FSA, F.P.?

00:23:33 25 A. Yes.

1 HONGFEI ZHANG (11/27/12)

00:23:35 2 Q. What was your title?

00:23:37 3 A. Director.

00:23:39 4 Q. And how long did you hold that
00:23:40 5 position?

00:23:46 6 MR. VAN KWAEGEN: Object to the
00:23:47 7 form.

00:23:50 8 A. I don't remember exactly. I think
00:23:57 9 it was right after Dexia sold insurance part
00:24:06 10 of the company to Assured or before. I don't
00:24:10 11 remember then I was, you know, I was named
00:24:13 12 chief risk officer for the group.

00:24:16 13 Q. So, that would have been around
00:24:17 14 2009?

00:24:18 15 A. I believe so.

00:24:19 16 Q. So, certainly during 2006, 2007 you
00:24:22 17 had the same position --

00:24:23 18 A. That's right.

00:24:24 19 Q. -- that you had when you were
00:24:25 20 initially hired?

00:24:26 21 A. That's right.

00:24:27 22 MR. VAN KWAEGEN: You have to let
00:24:27 23 him finish asking the question, then
00:24:29 24 give an answer.

00:24:32 25 A. That's correct.

1 HONGFEI ZHANG (11/27/12)

00:29:27 2 MR. VAN KWAEGEN: Object to the
00:29:27 3 form.

00:29:28 4 A. I don't believe so.

00:29:30 5 Q. Was there -- you say you don't

00:29:31 6 believe so. Was there a wall set up?

00:29:38 7 A. At least in the late days, I recall
00:29:43 8 there was wall set up.

00:29:45 9 Q. Can you describe for me that wall?

00:29:49 10 A. The wall was to separate the

00:29:53 11 underwriting of FP business from insurance

00:30:00 12 business.

00:30:02 13 So if you have knowledge of

00:30:04 14 underwriting on the insurance side, then you

00:30:08 15 don't look at the assets, specific assets, but

00:30:12 16 not -- I mean, generally, you can talk about

00:30:14 17 the assets, but not specific deals.

00:30:16 18 Q. So, explain to me a little bit more
00:30:24 19 what that means. Take someone like Russell
00:30:26 20 Brewer who is over the entire umbrella. Could
00:30:30 21 he use knowledge that he gained on the
00:30:32 22 insurance side to get advice on strategy for
00:30:39 23 the financial product side as long as he
00:30:41 24 didn't speak about specific assets?

00:30:44 25 MR. VAN KWAEGEN: Object to the

1 HONGFEI ZHANG (11/27/12)

00:49:11 2 Do you remember, generally, that testimony?

00:49:15 3 A. They are -- most of the assets are

00:49:21 4 triple A rated or were triple A rate.

00:49:23 5 Q. And you keep saying that. You keep

00:49:24 6 saying triple A rated. Is there anything

00:49:27 7 other than the fact that they were triple A

00:49:28 8 rated that made you believe those assets were

00:49:30 9 safe?

00:49:31 10 MR. VAN KWAEGEN: Object to the

00:49:31 11 form; argumentative.

00:49:47 12 A. If somebody tells me something is

00:49:48 13 triple A, I believe it's safe.

00:49:52 14 Q. Understood. And I just want to

00:49:53 15 make sure -- I'm asking a very precise

00:49:56 16 question. Is there anything else, other than

00:50:00 17 the triple A rating, that made you believe

00:50:03 18 that the residential mortgage-backed

00:50:04 19 securities that FSA, F.P. purchased were safe

00:50:08 20 investments?

00:50:08 21 MR. VAN KWAEGEN: Object to the

00:50:09 22 form.

00:50:31 23 A. I still don't understand that

00:50:33 24 question.

00:50:33 25 Q. What don't you understand?

1 HONGFEI ZHANG (11/27/12)

00:51:45 2 Q. So, what analysis did you rely on
00:51:48 3 to determine that the residential mortgage
00:51:50 4 backed securities that FSA, F.P. were safe
00:51:54 5 other than relying on the triple A rating?

00:51:56 6 MR. VAN KWAEGEN: Object to the
00:51:57 7 form. When you say "you," do you mean
00:51:58 8 Mr. Zhang or FSA, F.P.

00:52:06 9 A. I wasn't doing all the analysis
00:52:08 10 myself. So, if the portfolio manager run
00:52:20 11 analysis of each bond, first, it has to be
00:52:25 12 triple A. And then they run the analysis
00:52:29 13 based on many factors, which including FICO
00:52:35 14 scores, LTVs. What other -- I mean, type of
00:52:46 15 mortgages. I mean, they're -- they're --
00:52:49 16 they're a number of factors going into their
00:52:53 17 analysis.

00:52:54 18 Q. You said the portfolio manager runs
00:52:56 19 the analysis. Who was the portfolio manager
00:53:00 20 during 2006 and 2007?

00:53:01 21 A. That was Jake Hendrickson and he
00:53:04 22 has assistant.

00:53:06 23 Q. Was there a model that they used?

00:53:09 24 MR. VAN KWAEGEN: Object to the
00:53:10 25 form.

1 HONGFEI ZHANG (11/27/12)

01:07:46 2 A. That's correct.

01:07:47 3 Q. What is a residential

01:07:48 4 mortgage-backed security?

01:07:49 5 A. It's a securitized product of

01:07:54 6 mortgages for houses that people buy.

01:07:59 7 Q. Can you explain to me how a

01:08:00 8 mortgage-backed security is created?

01:08:05 9 MR. VAN KWAEGEN: Object to the

01:08:05 10 form.

01:08:08 11 A. It's created by pooling a large

01:08:13 12 number of mortgages, could be different types,

01:08:20 13 and then slice them into different cash flows

01:08:25 14 of seniorities.

01:08:29 15 Q. And explain in a little more detail

01:08:31 16 how the cash flows work.

01:08:34 17 MR. VAN KWAEGEN: Object to the

01:08:34 18 form.

01:08:37 19 A. Let's say you get cash flow of

01:08:40 20 mortgage pools for thousand mortgages.

01:08:44 21 Q. And you mean the monthly payments?

01:08:45 22 A. The monthly payments, that's

01:08:46 23 correct. So, that's monthly payment and then

01:08:51 24 you distribute those cash flows according to

01:08:57 25 the tranche you set up to. So, if it's a top

1 HONGFEI ZHANG (11/27/12)

01:09:01 2 in the cash flow, you give those cash flows

01:09:04 3 first.

01:09:05 4 And then if there's enough cash

01:09:06 5 flow, it goes to the next one, the next one.

01:09:09 6 That's the simplest mortgage-backed

01:09:10 7 securities.

01:09:15 8 Q. Can you describe for me how a

01:09:17 9 residential mortgage-backed security is

01:09:19 10 offered for sale to the public?

01:09:22 11 MR. VAN KWAEGEN: Object to the

01:09:22 12 form.

01:09:30 13 A. My understanding is investment

01:09:32 14 banks would buy those mortgages from mortgage

01:09:36 15 originators and sell them to a trust. And

01:09:46 16 then -- and slice, dice them. And according

01:09:51 17 to certain criteria and sent to rating

01:09:55 18 agencies for rating, and then register

01:09:59 19 security, and then it's sold through the sales

01:10:04 20 force of broker dealers to the general public.

01:10:07 21 Q. And the selling from the broker

01:10:09 22 dealers to the general public, do you have an

01:10:11 23 understanding of how that process worked?

01:10:13 24 MR. VAN KWAEGEN: Object to the

01:10:13 25 form.

1 HONGFEI ZHANG (11/27/12)

01:11:03 2 Q. Okay. So, what is your

01:11:04 3 understanding based on that?

01:11:06 4 A. You pick up the phone, talk to the

01:11:08 5 dealer on the other side and then issue a

01:11:11 6 deal. They send you the information on the

01:11:14 7 deal, you do some analysis and somehow in the

01:11:18 8 process, it gets done.

01:11:20 9 Q. You've never done that personally?

01:11:21 10 A. No.

01:11:22 11 Q. Have you heard the term,

01:11:23 12 prospectus?

01:11:25 13 A. Yes.

01:11:25 14 Q. What is a prospectus?

01:11:27 15 A. It's -- it describes the securities

01:11:34 16 you purchase, the characters. I mean, the

01:11:37 17 cash flows and the -- and the -- it's

01:11:40 18 typically very thick document.

01:11:43 19 Q. Have you heard the term,

01:11:44 20 "prospectus supplement"?

01:11:48 21 A. Yes, I believe it's the supplements

01:11:51 22 if -- if some new information has to be added.

01:11:56 23 Q. Have you ever read a prospectus in

01:11:58 24 connection with the purchase of a residential

01:12:00 25 mortgage-backed security?

1 HONGFEI ZHANG (11/27/12)

01:12:02 2 A. Not in its entirety because it's a
01:12:05 3 legal document and, typically, a lawyer would
01:12:10 4 read this, you know, so...

01:12:12 5 Q. Have you ever read a prospectus
01:12:13 6 supplement in connection with the purchase of
01:12:15 7 a residential mortgage-backed security?

01:12:16 8 A. I don't recall.

01:12:18 9 Q. You said you haven't read a
01:12:19 10 prospectus in its entirety. Do you recall
01:12:21 11 reading a prospectus in part in connection
01:12:25 12 with the purchase of a residential
01:12:26 13 mortgage-backed security?

01:12:30 14 MR. VAN KWAEGEN: You mean ever?

01:12:32 15 MR. EARNHARDT: Ever.

01:12:37 16 A. I do not believe. If I have any
01:12:39 17 questions, I will ask them, too.

01:12:42 18 Q. And that's fair. I just want to
01:12:42 19 make sure, you've never read a prospectus in
01:12:45 20 connection with the purchase of a residential
01:12:47 21 mortgage-backed security?

01:12:48 22 A. No.

01:12:54 23 Q. FSAM, which was -- well, withdrawn.

01:12:58 24 FSAM was a company in the FSA, F.P.

01:13:02 25 business line; is that right?

1 HONGFEI ZHANG (11/27/12)

02:47:09 2 based on the monthly mortgage payments,

02:47:11 3 correct, or the mortgage payments, correct?

02:47:13 4 MR. VAN KWAEGEN: Object to the

02:47:14 5 form.

02:47:16 6 A. The underlying mortgages.

02:47:17 7 Q. The underlying mortgages as opposed

02:47:19 8 to selling the mortgage-backed security for a

02:47:22 9 gain in value, correct?

02:47:22 10 A. That's correct.

02:47:24 11 Q. So, what FSA, F.P. was interested

02:47:29 12 in buying was that stream of mortgage

02:47:32 13 payments, correct?

02:47:34 14 MR. VAN KWAEGEN: Object to the

02:47:34 15 form.

02:47:40 16 A. I mean, we're interested in buying

02:47:42 17 an asset who, you know, produce a cash flow

02:47:46 18 for us.

02:47:46 19 Q. Right. FSA, F.P. did not intend to

02:47:51 20 sell the mortgage-backed securities for a

02:47:53 21 profit, correct?

02:47:55 22 MR. VAN KWAEGEN: Object to the

02:47:55 23 form, time, ambiguous.

02:47:58 24 A. That was, in general, correct.

02:48:02 25 Q. Do you know for the mortgage-backed